Johannesburg Water (SOC) Limited
Audited Annual Financial Statements
for the year ended 30 June 2015

The preparation of these audited annual financial statements were supervised by:
B. Shongwe (Financial Director)

General Information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Supply of water services as defined in the Water Services Act (Act 108 of 1997)
Directors	KPM Simelane (Chairperson) LT Dhlamini (Managing Director) CB Shongwe (Financial Director) ZD Hlatshwayo SN Khondlo JJH Mateya MP Matji K Mdutshane G Moloi C Motau NJ Motlabane
Registered office	17 Harrison Street Marshalltown Johannesburg 2107
Business address	17 Harrison Street Marshalltown Johannesburg 2107
Postal address	P. O. Box 61542 Marshalltown Johannesburg 2107
Controlling entity	City of Johannesburg Metropolitan Municipality
Bankers	Standard Bank of South Africa Limited
Auditors	The Auditor-General of South Africa
Secretary	G J Luden
Company registration number	2000/029271/07
Attorneys	Moodie and Robertson

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The reports and statements set out below comprise the annual financial statements presented to the Shareholder:

Directors' Responsibilities and Approval

The directors are required by the Companies Act of South Africa, Act 71 of 2008, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with Standards of Generally Recognised Accounting Practices (GRAP) and in accordance with directives issued by the National Treasury. The Auditor-General of South Africa is engaged to express an independent opinion on the annual financial statements.

The annual financial statements have been prepared in accordance with GRAP including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Companies Act of South Africa, Act 71 of 2008 and directives issued by the National Treasury.

The annual financial statements are based on appropriate policies consistently applied and supported by reasonable and prudent judgments and estimates. No external party, including the shareholder, has the authority to amend the annual financial statements after being issued by the company.

The company relies on the City of Johannesburg Metropolitan Municipality for the following functions for all its customers:

- Billing
- Cash collection
- Debtors administration
- Call centre management

The management of the above functions is regulated by an agency agreement between the City of Johannesburg Metropolitan Municipality and the company. The implemented processes and methods of operation are solely under the control and stewardship of the City of Johannesburg Metropolitan Municipality. This arrangement is managed in terms of a service level agreement underpinning the agency agreement.

Clause 13.3 of the Agency Agreement with the City of Johannesburg Metropolitan Municipality states that "The performance of the Customer Revenue Collection and Customer Relations Management functions shall be conducted and records thereof kept by the City of Johannesburg Metropolitan Municipality in such a manner as to ensure that the audited accounts of the Company are in no way qualified as a result of any act or omission connected with the execution of the Customer Revenue Collection and Customer Relations Management functions". The directors place full reliance on the internal controls as established by The City of Johannesburg Metropolitan Municipality in the execution of the Customer Billing and Revenue Collection and Customer Relations Management functions.

The directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring strategic, operational and external risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 30 June 2016 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future. The approved budget for the ensuing financial year assumes a positive cash flow.

Directors' Responsibilities and Approval

The Auditor-General of South Africa is responsible for providing assurance and reporting on the company's annual financial statements.

The annual financial statements set out on pages 5 to 70, which have been prepared on the going concern basis, were approved by the audit committee on 27 November 2015 and were signed on their behalf by:

KPM Simelane (Chairperson)

LT Dhlamini (Managing Director)

Directors' Report

The directors submit their report for the year ended 30 June 2015.

1. INCORPORATION

The company was incorporated on 21 November 2000 and obtained its certificate to commence business on 1 January 2001.

2. REVIEW OF ACTIVITIES

Main business and operations

The company is engaged in the supply of water services as defined in the Water Services Act, Act 108 of 1997 as well as the treatment of wastewater and operates principally in South Africa.

The company continues to rely on the City of Johannesburg Metropolitan Municipality for the following functions for all customers:

- Billing
- Cash collection
- Debtors administration
- Call centre management

The implementation of the project to centralise the customer call centre, billing and credit control functions in the 2010 financial year has resulted in significant challenges in the performance of all migrated functions. The board of directors have continued to express their concern to the Shareholder, and have been assured that the challenges are being addressed, and that appropriate interventions are being implemented by the City of Johannesburg Metropolitan Municipality.

The operating results and state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the company was R 671,9 million (2014: R 561,7 million). The company is exempt from income tax with effect from the financial year ended 30 June 2007 in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962 as amended. There is consequently no taxation effect.

3. GOING CONCERN

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

4. DIRECTORS' INTEREST IN CONTRACTS

The directors of the company did not have any personal financial interest in contracts entered into by the company.

5. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

Directors' Report

6. CONTRIBUTION FROM SHAREHOLDER

There were no changes in the authorised or issued share capital of the company during the year.

According to the company's register at 30 June 2015, the City of Johannesburg Metropolitan Municipality held 100% of the ordinary share capital of the company.

7. BORROWING LIMITATIONS

In terms of the sale of business agreement, the company requires the approval of the shareholder in instances where the borrowing is to be secured by the hypothecation of the assets of the company.

8. NON-CURRENT ASSETS

There were no major changes in the nature of non-current assets of the company during the year.

9. DISTRIBUTIONS TO SHAREHOLDER

No distributions were declared or paid to the shareholder during the year.

10. DIRECTORS

The directors of the entity during the year and to the date of this report are as follows:

Name	Nationality	Changes in appointment
KPM Simelane (Chairperson)	South African	
LT Dhlamini (Managing Director)	South African	
CB Shongwe (Financial Director)	South African	
N Govender	South African	Retired 03 February 2015
ZD Hlatshwayo	South African	Appointed 12 February 2015
SN Khondlo	South African	Appointed 12 February 2015
JB Manche	South African	Retired 03 February 2015
JJH Mateya	South African	
MP Matji	South African	Appointed 12 February 2015
K Mdutshane	South African	
G Moloi	South African	
C Motau	South African	
NJ Motlabane	South African	Appointed 12 February 2015
N Msezane	South African	Retired 03 February 2015
NC Skeepers	South African	Retired 03 February 2015

11. SECRETARY

The secretary of the company is G J Luden.

12. CORPORATE GOVERNANCE

12.1 General

The board of directors are committed to business integrity, ethics, anti-corruption, transparency and professionalism in all its activities. As part of this commitment, the board supports the highest standards of corporate governance and the development of best practice.

The company confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2009, and the Companies Act of South Africa, Act 71 of 2008. The board of directors discuss the responsibilities of management in this respect, at board meetings and monitors the company's compliance with the code on a quarterly basis.

The salient features of the company's adoption of the Code are outlined below:

12.2 Board of directors

The board:

- retains full control over the company, its policies, strategies and plans;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the company;
- is of a unitary structure comprising:
  - 9 non-executive directors, all of whom are independent directors as defined in the Code, and
  - 2 executive directors

12.3 Chairperson and Managing Director

The Chairperson is a non-executive and independent director (as defined by the code). The roles of the Chairperson and Managing Director are separate, with responsibilities divided between them, so that no individual has unfettered powers of decision.

Directors' Report

12.4 Executive meetings

The directors have met on 7 separate occasions during the financial year. The directors are scheduled to meet at least 4 times per annum.

Non-executive directors have access to all members of management of the company.

Name	Board Meetings	Audit committee meeting	Human resources and remuneration committee meeting	Service delivery and oversight procurement committee meeting	Risk and Information Technology committee meeting	Social and ethics committee	Nominations Committee	Total meetings
Total number of meetings held	7	12	8	4	5	2	8	46
KPM Simelane (Chairperson)	7	-	-	1	-	2	-	10
LT Dhlamini (Managing Director)	6	7	5	3	5	2	8	36
CB Shongwe (Financial Director)	7	11	8	4	5	2	-	37
N Govender	4	8	-	-	3	-	1	16
ZD Hlatshwayo	-	-	-	-	-	1	2	3
SN Khondlo	1	-	-	1	-	-	-	2
JB Manche	4	-	7	-	-	-	-	11
JJH Mateya	7	-	8	-	5	-	7	27
MP Matji	3	3	-	-	-	-	-	6
K Mdutshane	7	12	1	-	4	-	5	29
G Moloi	5	-	-	3	-	-	-	8
C Motau	7	-	-	4	2	-	3	16
NJ Motlabane	3	-	1	-	-	1	-	5
N Msezane	4	-	5	-	-	1	-	10
NC Skeepers	4	-	1	3	3	1	2	14

12.5 Audit committee

The chairperson of the audit committee is K Mdutshane who is a non-executive director. The committee met 12 times during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003, the City of Johannesburg Metropolitan Municipality, as the shareholder, must appoint members of the audit committee. Notwithstanding the fact that non-executive directors appointed by the shareholder constituted the company's audit committee, National Treasury policy requires the appointment of further members to the audit committee who are not directors of the company. Three independent members were appointed to the audit committee in compliance with Section 166 of the Local Government: Municipal Finance Management Act, Act 56 of 2003.

The independent members of the audit committee are:

R Buys	- attended 11 meetings
V Mokwena	- attended 11 meetings
Z Samsam	- attended 11 meetings

12.6 Internal audit

The company has an internal audit unit which is operational. This is in compliance with the Local Government Municipal Finance Management Act, Act 56 of 2003.

Directors' Report

13. PARENT

The company's parent is the City of Johannesburg Metropolitan Municipality.

14. SPECIAL RESOLUTIONS

The company did not pass any special resolution during the year under review.

15. BANKERS

The Standard Bank of South Africa Limited served as the company's bankers throughout the financial year.

16. AUDITORS

The Auditor-General of South Africa will continue in office in accordance with the Public Audit Act, Act 25 of 2004, section 92 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 and section 90 of the Companies Act of South Africa, Act 71 of 2008.

Certificate by Company Secretary for the year ended 30 June 2015

In terms of section 88(2) (e) of the Companies Act 71 of 2008 and the Municipal Finance Management Act, Act 56 of 2003, I certify that, to the best of my knowledge and belief, the company has lodged and/or filed, for the year ended 30 June 2015, all such returns and notices as required and that all such returns and notices are true, correct and up to date.

G J Luden

Johannesburg Water (SOC) Limited
Company Secretary

Johannesburg
27 November 2015

Report of the Audit Committee

We are pleased to present our report for the financial year ended 30 June 2015.

Audit committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 94(7) of the Companies Act of South Africa, Act 71 of 2008, as amended, and section 166(2) of the Municipal Finance Management Act, No 56 of 2003. The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

Assessment of the finance function

The Audit Committee is satisfied that the annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The committee considered the expertise, resources and experience of the finance function and concluded that these were appropriate.

The effectiveness of internal controls

The Committee evaluated the internal control environment, and based on the information, reports and explanations provided by management, internal audit department and the Auditor-General South Africa, assessed the internal controls as adequate and partially effective to mitigate the related risks to an acceptable level.

There were findings reported by the Auditor-General South Africa on Compliance with legislation. These were noted for appropriate corrective action to be taken by Management. The Committee needs to pay more attention on the recurring revenue and receivables findings.

Nothing significant has come to the attention of the committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The effectiveness of the internal audit department

The Internal Audit department executed and completed 84% of all projects included in the 2014/2015 internal audit plan. The plan was properly aligned to the risk register. The Committee is satisfied with the effectiveness of the internal audit function during the year and accepts that the internal audit activity has to a large extent addressed the risks pertinent to Johannesburg Water.

In respect of action plans to address internal control deficiencies, timeous implementation remained a challenge as could be seen in the inadequate monitoring of the effectiveness of controls relating to revenue and receivables.

The internal audit function was subjected to an independent quality assurance review in the current year and was found to be partially compliant. The committee will monitor progress on the improvement plans.

Performance reporting

The implementation of proper record keeping to ensure complete and accurate information to support performance information needs to be enhanced.

Governance

Risk management
Johannesburg Water has a Risk Management Division which focuses on the identification, assessment, management and monitoring of risk. Based on the information provided, the Committee is satisfied that the high residual risks were reduced to an acceptable level.

Legal compliance
The Audit Committee reviewed the organisation's compliance with legal and regulatory provisions and ensured that processes are in place to monitor the level of compliance to laws and regulations within the organisation.

Report of the Audit Committee

Submission of quarterly reports in terms of the Municipal Finance Management Act

Quarterly reports have been submitted and reviewed by the committee in terms of the Municipal Finance Management Act. The company still experienced challenges relating to certain financial and performance reports, which should have been provided by the Revenue Shared Services Center at the City of Johannesburg during the year.

External Auditors

Having considered the matters set out in section 94(8) of the Companies Act, the committee is satisfied with the independence and objectivity of the external auditors.

Matters raised by the Auditor-General in the previous year

Of the 31 issues raised by the Auditor-General South Africa in the 2013/2014 management report, twenty seven (27) 87% were fully resolved, three (3) 9% were partially resolved and only one (1) 3% was yet to be resolved as at 30 June 2015. The Audit Committee continues to monitor progress on the implementation of action plans to resolve the Auditor General South Africa’s findings.

Financial Statements

The Audit Committee has reviewed the annual financial statements for the year ended 30 June 2015, and concurs with and accepts the Auditor General South Africa’s conclusion on the financial statements and is of the opinion that the audited financial statements should be accepted and read together with the Auditor General South Africa’s report.

Appreciation

The Audit Committee expresses its appreciation to the Board, Accounting Officer, senior management and the Auditor-General South Africa for their contributions during the year under review.

K Mdutshane

Johannesburg Water (SOC) Limited
Chairperson of the Audit Committee

Johannesburg
27 November 2015

Report of the auditor-general to the Gauteng Provincial Legislature and the council on the City of Johannesburg Metropolitan Municipality on Johannesburg Water SOC Limited

Report on the financial statements

Introduction

1. I have audited the financial statements of the Johannesburg Water SOC Limited set out on pages … to …, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipal entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipal entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Johannesburg Water SOC Limited as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and the Companies Act.

Emphasis of matter

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 37 to the financial statements, the corresponding figures for June 2014 have been restated as a result of errors discovered in the financial statements of Johannesburg Water during the year ended June 2015.

Material impairments

9. As disclosed in note 11 to the financial statements, material impairments to the amount of R3 874 196 000 (2014: R5 748 754 000) representing 66% (2013:77%) of consumer debtors were incurred, as the recoverability of these amounts is doubtful.

Unaudited disclosure notes

10. In terms of section 125(2) (e) of the MFMA the municipal entity is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Other reports required by the Companies Act

11. As part of our audit of the financial statements for the year ended 30 June 2015, I have read the Director's Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, I have not identified material inconsistencies between the reports and the audited financial statements. I have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

12. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as

described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

13. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2015:

    a. Performance Objective 1- Increase customer services pp.-x

    b. Performance Objective 2- Reduce service interruptions & ensure reliable service pp-x

    c. Performance Objective 3- Increase access to basic services pp.-x

    d. Performance Objective 4 - Contribute towards national development goal pp.-x

    e. Performance Objective 5 - Protect the environment pp.- x

14. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

Objective 1 - Increase customer services

17. I did not identify material findings on the usefulness and reliability of the reported performance information for objective 1: Increase customer services.

Objective 2 - Reduce service interruptions and ensure reliable services

18. I did not identify material findings on the usefulness and reliability of the reported performance information for objective 2: Reduce service interruptions and ensure reliable services.

Objective 3 - Increase access to basic services

19. I did not identify material findings on the usefulness and reliability of the reported performance information for objective 3: Increase access to basic services.

Objective 4 - Contribute towards national development goals

20. I did not identify material findings on the usefulness and reliability of the reported performance information for objective 4: Contribute towards national development goal.

Objective 5 - Protect the environment

21. I did not identify material findings on the usefulness and reliability of the reported performance information for objective 5: Protect the environment.

Additional matter

22. I draw attention to the following matter

Achievement of planned targets

23. Refer to the annual performance report on pages x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information reported in paragraphs x to x of this report.

Compliance with legislation

24. I performed procedures to obtain evidence that the municipal entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows.

Annual financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 (1) of the MFMA. Material misstatements of revenue and receivables identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Revenue management

26. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, as required by section 97(1) (h) of the MFMA.

Internal control

27. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the non-compliance with legislation included in this report.

Leadership

28. Leadership did not exercise adequate oversight responsibility regarding financial reporting and compliance as well as related internal controls, and as a result there were recurring significant findings on revenue and receivables.

Financial management

29. Management did not consistently prepare regular, accurate and complete financial reports that were supported and evidenced by reliable information and effective revenue management.

Other reports

Investigations

30. The internal audit unit is currently performing various investigations at the request of the accounting officer of the municipal entity. The investigations were initiated based on allegations of collusion, supply chain management irregularities, unauthorised sales of water meters and illegal water connections.

Johannesburg

Date of signing

30 November 2015

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Statement of Financial Position as at 30 June 2015

Figures in Rand thousand	Note(s)	2015	2014 Restated
ASSETS			
Current Assets			
Inventories	5	64 938	60 796
Loans to shareholder	7	454 095	212 130
Other receivables	10	13 656	13 459
Consumer debtors: Exchange transactions	11	1 965 488	1 989 443
Cash and cash equivalents	13	30	31
Total Current Assets		**2 498 207**	**2 275 859**
Non-Current Assets			
Property, plant and equipment	3	8 772 591	7 685 619
Intangible assets	4	44 619	50 409
Total Non-Current Assets		**8 817 210**	**7 736 028**
Total Assets		**11 315 417**	**10 011 887**
LIABILITIES			
Current Liabilities			
Trade payables with group companies	6	3 635	22 768
Loans from shareholder	7	1 240 911	785 771
Finance lease obligation: Shareholder	8	2 359	2 364
Finance lease obligation: Other	9	1 290	1 504
Trade and other payables from exchange transactions	17	1 841 630	1 926 670
Provisions	18	21 493	18 101
Total Current Liabilities		**3 111 318**	**2 757 178**
Non-Current Liabilities			
Loans from shareholder	7	2 926 633	2 648 152
Finance lease obligation: Shareholder	8	7 441	8 829
Finance lease obligation: Other	9	1 505	279
Retirement benefit obligation	15	86 989	90 174
Deferred income	16	2 260	-
Total Non-Current Liabilities		**3 024 828**	**2 747 434**
Total Liabilities		**6 136 146**	**5 504 612**
Net Assets		**5 179 271**	**4 507 275**
NET ASSETS			
Contribution from shareholder	14	1	1
Accumulated surplus		5 179 270	4 507 274
Total Net Assets		**5 179 271**	**4 507 275**

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2015	2014 Restated
Revenue from exchange transactions	20	7 286 791	6 462 164
Cost of sales		(3 496 500)	(3 248 444)
Gross surplus		**3 790 291**	**3 213 720**
Other income	21	241 485	222 574
Revenue from non-exchange transactions	22	223 917	308 424
Operating expenses		(3 358 393)	(2 965 205)
Operating surplus	24	**897 300**	**779 513**
Interest revenue	29	83 819	64 880
Finance costs	30	(309 123)	(282 669)
Surplus for the year		**671 996**	**561 724**

Statement of Changes in Net Assets

Figures in Rand thousand	Note(s)	Share capital	Accumulated surplus	Total net assets
Balance at 01 July 2013 previously reported		1	3 893 346	3 893 347
Restatement	37		52 204	52 204
Balance at 01 July 2013 restated		**1**	**3 945 550**	**3 945 551**
Surplus for the year - as restated			561 724	561 724
Balance at 01 July 2014 restated		**1**	**4 507 274**	**4 507 275**
Surplus for the year			671 996	671 996
Balance at 30 June 2015		**1**	**5 179 270**	**5 179 271**
Note		14		

Cash Flow Statement

Figures in Rand thousand	Note(s)	2015	2014 Restated
Cash flows from operating activities			
Receipts			
Cash receipts from customers		7 004 189	5 865 042
Interest revenue	29	83 819	64 880
		7 088 008	5 929 922
Payments			
Cash paid to suppliers and employees		(6 149 027)	(5 006 454)
Finance costs	30	(309 123)	(282 669)
		(6 458 150)	(5 289 123)
Net cash flows from operating activities	32	**629 858**	**640 799**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(1 115 119)	(952 875)
Proceeds from disposal of property, plant and equipment and intangible assets	3&4&24	522	18
Purchase of intangible assets	4	(6 537)	(15 790)
Net cash flows from investing activities		**(1 121 134)**	**(968 647)**
Cash flows from financing activities			
Cash movement in loans with shareholder	7	491 656	325 346
Cash movement in Finance lease obligation: shareholder	8	(1 393)	4 148
Cash movement in Finance lease obligation: other	9	1 012	(1 641)
Net cash flows from financing activities		**491 275**	**327 853**
Net (decrease)/increase in cash and cash equivalents		**(1)**	**5**
Cash and cash equivalents at the beginning of the year		31	26
Cash and cash equivalents at the end of the year	13	**30**	**31**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Statement of Financial Performance

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Revenue						
Service charges	7 331 100	-	**7 331 100**	7 286 791	**(44 309)**	1
Other income	236 411	-	**236 411**	465 402	**228 991**	3
Total revenue	**7 567 511**	**-**	**7 567 511**	**7 752 193**	**184 682**	
Cost of sales						
Bulk Purchases - Water	(3 353 031)	(31 311)	**(3 384 342)**	(3 496 500)	**(112 158)**	2
Gross margin	**4 214 480**	**(31 311)**	**4 183 169**	**4 255 693**	**72 524**	
Expenditure						
Employee related costs	(755 669)	(40 901)	**(796 570)**	(771 920)	**24 650**	4
Contracted services	(622 652)	21 901	**(600 751)**	(568 954)	**31 797**	5
Consultants fees	(9 769)	-	**(9 769)**	(8 768)	**1 001**	6
General expenditure - other	(537 280)	18 001	**(519 279)**	(387 360)	**131 919**	7
Repairs and maintenance	(14 624)	1 000	**(13 624)**	(12 640)	**984**	8
Provision for bad debts	(518 476)	(363 028)	**(881 504)**	(1 423 127)	**(541 623)**	9
Depreciation	(226 307)	-	**(226 307)**	(185 624)	**40 683**	10
Total expenditure	**(2 684 777)**	**(363 027)**	**(3 047 804)**	**(3 358 393)**	**(310 589)**	
Surplus before interest	**1 529 703**	**(394 338)**	**1 135 365**	**897 300**	**(238 065)**	
Interest income	77 280	-	**77 280**	83 819	**6 539**	11
Interest expense	(355 596)	37 272	**(318 324)**	(309 123)	**9 201**	12
	(278 316)	**37 272**	**(241 044)**	**(225 304)**	**15 740**	
Surplus for the year	**1 251 387**	**(357 066)**	**894 321**	**671 996**	**68 396**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

1. The adverse variance in service charges of 0.60% is due to revenue which did not materialise.

2. The excess expenditure of 3.31% on bulk water purchases is attributable to the following reasons:
   a) Rand Water detected that due to an incorrect meter size, JW was under charged for the volumes of water supplier to Zondi meter. The meter was replaced by Rand Water in December 2014 and this resulted in an increase in the volumes being recorded and billed from January 2015. The additional kiloliters billed were not budgeted for which amounted to approximately 2,065 megaliters or R12.4 million for the period January 2015 to June 2015.

   b) The balance of the excess is attributable to a delay in the water conservation and water demand management projects. There have been some positive results from these projects considering the fact that JW showed a 0% growth in volumes from 2013/14 to 2014/15 as opposed to the historic annual growth of 2.4%.

3. The increase of 96.86% in other income is attributable to additional grant funding received from bulk services contributions (R75 million), developer funded assets (R148 million) and other sundry income (R6 million).

4 The savings of 3.09% can be ascribed to the delay in the recruitment process as a result of the late receipt of approval of the adjusted budget.

5. The under expenditure of 5.29% on contracted services is mainly attributable to cost savings on fleet cost and contractor services for maintenance to the water and sanitation infrastructure.

6. The services of consultants were less than anticipated hence the saving of R1 million or 10.24%.

7. All efforts have been made to reduce unnecessary expenditure on general expenses in an attempt to reduce cost and to fund excess expenditure in other categories. Savings of 25.40% were made on inter alia marketing, advertising, rents, legal, electricity and chemical costs.

8. Repairs and maintenance is underspent by 7.23% due to under expenditure on maintenance to buildings and grounds and gardens. Expenditure only occurs as and when required.

9. Increased contribution to the bad debt provision of 61.44% is attributable to poor payment levels. The average payment level for the year is 81.1% against a revised budgeted payment level of 88%.

10. Depreciation is below budget by 17.98% due to slow capitalisation of assets. Assets are only capitalised and depreciated when commissioned for use.

11. The variance of 8.46% on interest charges on outstanding debtors is attributable to the payment patterns of debtors and interest received on the bank sweeping account.

12. Capex drawdowns were slower than expected during the financial year due to delays in the execution of capital projects, hence the saving of 2.89% in interest charges.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Statement of Financial Position as at 30 June 2015

Assets						
Current Assets						
Inventories	52 930	11 210	**64 140**	64 938	**798**	
Loans to shareholder	1 844 749	(1 054 530)	**790 219**	454 095	**(336 124)**	2
Trade receivables with group companies	4	-	**4**	2	**(2)**	
Other receivables	12 966	793	**13 759**	13 656	**(103)**	3
Consumer debtors	1 683 353	223 568	**1 906 921**	1 965 489	**58 568**	4
Cash and cash equivalents	26	-	**26**	30	**4**	
	3 594 028	**(818 959)**	**2 775 069**	**2 498 210**	**(276 859)**	
Non-Current Assets						
Property, plant and equipment	8 448 041	153 266	**8 601 307**	8 817 210	**215 903**	1
Total Assets	**12 042 069**	**(665 693)**	**11 376 376**	**11 315 420**	**(60 956)**	
Liabilities						
Current Liabilities						
Trade payables with group companies	12 628	11 172	**23 800**	3 635	**20 165**	8
Loans from shareholder	679 182	440 208	**1 119 390**	1 240 911	**(121 521)**	9
Finance lease obligation: Shareholder	3 562	383	**3 945**	2 359	**1 586**	
Finance lease obligation: Other	-	-	**-**	1 290	**(1 290)**	
Trade and other payables from exchange transactions	1 709 273	64 467	**1 773 740**	1 778 667	**(4 927)**	
Provisions	76 097	5 508	**81 605**	84 458	**(2 853)**	10
	2 480 742	**521 738**	**3 002 480**	**3 111 320**	**(108 840)**	
Non-Current Liabilities						
Loans from shareholder	3 174 015	(223 433)	**2 950 582**	2 926 633	**23 949**	6
Finance lease obligation: Shareholder	7 330	1 960	**9 290**	7 441	**1 849**	
Finance lease obligation:Other	-	-	**-**	1 505	**(1 505)**	
Deferred income	499	(499)	**-**	2 260	**(2 260)**	7
Retirement benefit obligation	96 236	(5 160)	**91 076**	86 990	**4 086**	
	3 278 080	**(227 132)**	**3 050 948**	**3 024 829**	**26 119**	
Total Liabilities	**5 758 822**	**294 606**	**6 053 428**	**6 136 149**	**(82 721)**	
Net Assets	**6 283 247**	**(960 299)**	**5 322 948**	**5 179 271**	**(143 677)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Equity and Liabilities						
Contribution from shareholder	1	-	**1**	1	**-**	
Reserves						
Accumulated surplus	6 283 246	(960 299)	**5 322 947**	5 179 270	**(143 677)**	5
Total Net Assets	**6 283 247**	**(960 299)**	**5 322 948**	**5 179 271**	**(143 677)**	

1. The value of the PPE as at 30 June 2015 exceeded the budget by R216 million (2.5%) mainly due to the capitalisation of developer funded assets of R147 million not budgeted for and the recognition of inventory capital spares of R64 million.

2. Loans to shareholder are 42.5% below budget due to the capex drawdown for loan funding and the grant funding being less than anticipated at year-end. It was also anticipated that the City would owe JW an amount for cash not yet paid over which was not the case at year-end.

3. Debt from other sundry debtors was less than anticipated by 0.7%.

4. The variance of 3.1% for consumer debtors is attributable to the poor payment levels. The actual payment level was 81.1% versus a revised budgeted payment level of 88%.

5. The adverse variance of 2.7% on accumulated surplus is attributable to an adverse prior year revenue adjustment of R164 million reduced by an increased profit of R68 million for the 2014/15 financial year.

6. The loan required to fund the capital expenditure related to loans to shareholder, was less than budgeted hence the favourable variance of 0.8%.

7. Deferred income relates to sewer pipeline rehabilitation work to be performed for the Department of Housing at the Kanana and Helen Joseph housing projects.

8. Payments for work done by group companies have been made through-out the year end, hence the amount owed at year-end is 84.7% below the budgeted amount.

9. The adverse variance of 10.9% for loans from shareholder is attributable to the increased value of the City of Johannesburg creditors outstanding at the end of the period. Payments to the City of Johannesburg for the revenue management fee and rates and services are withheld until such time that there is an improvement in the payment level.

10. The adverse variance for provisions of 3.5% is attributable to the performance bonus and service bonus provision accounts being adjusted to reflect actual requirements.

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Cash Flow Statement

Cash flows from operating activities

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Receipts						
Cash receipts from customers	7 800 322	(407 963)	**7 392 359**	7 004 189	**(388 170)**	1
Interest revenue	77 280	-	**77 280**	83 819	**6 539**	
	7 877 602	**(407 963)**	**7 469 639**	**7 088 008**	**(381 631)**	
Payments						
Cash paid to suppliers and employees	(5 865 008)	(487 621)	**(6 352 629)**	(6 149 027)	**203 602**	2
Finance costs	(355 596)	37 272	**(318 324)**	(309 123)	**9 201**	3
	(6 220 604)	**(450 349)**	**(6 670 953)**	**(6 458 150)**	**212 803**	
Net cash flows from operating activities	**1 656 998**	**(858 312)**	**798 686**	**629 858**	**(168 828)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(1 228 150)	100 520	**(1 127 630)**	(1 115 119)	**12 511**	4
Proceeds from disposal of plant and equipment	-	-	**-**	522	**522**	
Purchase of intangible assets	-	-	**-**	(6 537)	**(6 537)**	
Net cash flows from investing activities	**(1 228 150)**	**100 520**	**(1 127 630)**	**(1 121 134)**	**6 496**	
Cash flows from financing activities						
Cash movement in loans from shareholder	(428 848)	757 792	**328 944**	491 656	**162 712**	
Cash movement in finance lease obligation: Shareholder	-	-	**-**	(1 393)	**(1 393)**	
Cash movement in finance lease obligation: Other	-	-	**-**	1 012	**1 012**	
Net cash flows from financing activities	**(428 848)**	**757 792**	**328 944**	**491 275**	**162 331**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net (decrease) in cash and cash equivalents	-	-	**-**	(1)	**(1)**	
Cash and cash equivalents at the beginning of the year	26	-	**26**	31	**5**	
Cash and cash equivalents at the end of the year	**26**	**-**	**26**	**30**	**4**	

1. The actual cash receipts are below budget by 5.3% due to poor collection levels. The average payment level for 2014/15 is 81.1% against a revised budget of 88%.

2. The variance for cash paid to suppliers and employees of 3.2% is due to payments to creditors being less than budgeted. Payments to the City of Johannesburg creditors for the revenue management fee and rates and services were withheld in anticipation of an improvement in the payment level.

3. The savings in finance costs of 2.9% is due to capex drawdowns being slower than expected during the financial year due to delays in the execution of capital projects.

4. The actual amount spent on property, plant and equipment is 1.1% less than budgeted due to delayed capital expenditure.

The approved adjusted budget 2014/2015, as approved by council, is available for inspection at the registered office of the City of Johannesburg Metropolitan Municipality, Metropolitan Centre, 23 Loveday Street, Braamfontein, 2001.

Although the Annual Financial Statements and the Budget are both prepared on the same basis, the presentation of the two reports differ. The overall financial impact of the different methods of presentation when comparing the two reports is nil.

Summary of Accounting Policies

1. Basis of preparation

The audited annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Local Government: Municipal Finance Management Act, Act 56 of 2003 and the Companies Act of South Africa, Act 71 of 2008.

The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. Accounting policies for material transactions, events of conditions not recovered by the GRAP reporting framework, have been developed in accordance with paragraphs 7,11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The basis presumes that funds will be available to future operations and that the realisation of assets and settlement of liabilities, contingent liabilities and commitments will occur in the ordinary course of business. These accounting policies are consistent with the previous accounting period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Significant judgements and estimation uncertainty includes:

Useful lives of waste water, water networks and other non-current assets

The company's management determines the estimated useful lives and related depreciation charges for the waste water, water networks and other non-current assets. This estimate is based on industry norms. Management will adjust the depreciation charge where the useful lives of these assets have changed from previous estimates.

Impairment of property, plant and equipment and other non-current and intangible assets

Property, plant and equipment and other non-current, and intangible assets, are reviewed annually by management for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Post retirement benefits

The present value of the post retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include a discount rate, rate of increase in employer post retirement medical contribution and expected increase in salaries. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The appropriate discount rate at the end of each financial year is determined by actuaries. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement obligations. In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement liability.

Other key assumptions for post retirement obligations are based on current market conditions. Additional information is disclosed in Note 15.

Summary of Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

The company used a risk free interest rate to discount revenue and expenditure that impacts trade and other payables, trade payables with group companies, consumer debtors, other receivables, trade receivables with group companies and loans to and from shareholder.

Allowance for debt impairment of consumer debtors

The allowance for impairment is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Management utilises judgement in evaluating credit risk related to customers. Judgement is based on various factors including, but not limited to, historical information available.

Valuation of water stock

The value of water held at year end is based on water levels multiplied by the cost of water at that date.

1.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, or replace part of such assets. If a replacement part is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment transferred to the company by developers at no cost to the company are recognised as an asset when the project is signed off and approved by the company. The asset is recorded at fair value to construct the asset as indicated by the developer.

COST MODEL

Property, plant and equipment excluding land and capital work-in-progress, which is held for use in the production or supply of goods or services or for administrative purposes are stated in the Statement of Financial Position at cost less accumulated depreciation and any accumulated impairment losses. Depreciation commences when the assets are ready for their intended use.

Capital work-in-progress is carried at cost, and depreciated from the date the assets are technically complete, i.e. ready for intended use. Capital work-in-progress is disclosed as a separate category of property, plant and equipment.

Day to day repairs and maintenance expenses are charged to the Statement of Financial Performance during the financial year in which they are incurred. The costs of major renovations are included in the carrying amount of the asset when it is probable that future economic benefits or service potential will flow to the company and the cost of the items can be measured reliably.

Land is regarded as having an indefinite useful life and is not depreciated. Depreciation is provided on all property, plant and equipment other than land and capital work-in-progress, to write down the costs, less estimated residual value, on a straight line basis over their estimated useful lives as follows:

Summary of Accounting Policies

1.2 Property, plant and equipment (continued)

Item	Useful life
Buildings	5 - 30 years
Communication equipment	2 - 9 years
Furniture and Fixtures	5 - 12 years
Computer equipment	4 - 15 years
Motor vehicles	5 - 12 years
Laboratory equipment	2 - 10 years
Minor plant	5 - 13 years
Office equipment	5 - 12 years
Plant and machinery	10 - 40 years
Waste water and water networks	
• Pump stations - Civil	60 - 100 years
• Pump stations - Mechanical	5 - 15 years
• Pump stations - Electrical	7 - 16 years
• Water meters	4 - 13 years
• Pipelines and other	60 - 100 years

The residual values, depreciation methods and the useful lives of the asset categories are reviewed at each financial year-end and adjusted if necessary. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any and the carrying amount of the item.

1.3 Intangible assets

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost and comprise of computer software and servitudes. Cost includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates and the costs can be measured reliably. All other expenditure is expensed as incurred.

Summary of Accounting Policies

1.3 Intangible assets (continued)

Cost model

Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. For all other intangible assets amortisation is provided on a straight line basis over their useful life. The amortisation period and the amortisation method for intangible assets are reviewed each year-end and adjusted if necessary.

By their nature, servitudes confer upon the holder a right in perpetuity over the property and as these rights have an indefinite useful life, they are not amortised.

An item of intangible asset is derecognised upon disposal or when no future economic benefits or service potential are expected from its use or disposal. The surplus or deficit arising from the derecognition of an item or intangible asset is included in the surplus of deficit when the item is derecognised. The surplus or deficit arising from the derecognition of an item of intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Amortisation is provided to write down the intangible assets, on a straight line basis as follows:

Item	**Useful life**
Computer software	3 - 6 years

1.4 Financial instruments

Initial recognition

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised initially at fair value and, in the case of instruments not at fair value through profit or loss, including directly attributable transaction costs.

Financial assets and financial liabilities are recognised on the company's Statement of Financial Position when the company becomes party to the contractual provisions of the instrument.

Fair value determination

Management establishes fair value for financial instruments by using certain valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and relying as little as possible on entity-specific inputs.

Loans and receivables

Loans and receivables comprise trade receivables with group companies, loans to shareholder, other receivables, consumer debtors and cash and cash equivalents. Loans and receivables are subsequently measured at amortised costs using the effective interest method.

Payables from exchange transactions

Financial liabilities at amortised cost comprise trade payables with group companies, trade and other payables and loans from shareholder. These liabilities are subsequently measured at amortised cost using the effective interest method.

Cash and Cash equivalents

Cash and cash equivalents comprise cash on hand and are subsequently measured at amortised cost.

1.4 Financial instruments (continued)

Impairment of Financial Assets

The company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments (more than 90 days overdue as well as observable payment levels for overdue through to 89 days), the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For amounts due from loans and advances to customers carried at amortised cost, the company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the instrument's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the surplus or deficit.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  (a) the company has transferred substantially all the risks and rewards of the asset, or
  (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Summary of Accounting Policies

1.4 Financial instruments (continued)

Gains and losses for Financial Assets

Gains and losses are recognised in the statement of financial performance when the asset is derecognised or impaired as well as through the amortisation process.

Gains and losses for Financial Liabilities

Gains and losses are recognised in the statement of financial performance when the liability is derecognised as well as through the amortisation process.

1.5 Income Tax

The company is an exempt entity in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962. As a result of the exemption no income tax has been provided for in the current financial year.

1.6 Leases

Finance leases

Finance leases are recognised as assets in the Statement of Financial Position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place. Contingent rentals are expensed as incurred.

The lease for motor vehicles is classified as an operating lease at inception. It is not straight-lined due to the lease contract containing multiple parameters such as escalations linked to various market indices, which is variable depending on the prevailing market indicators. This renders the escalation clause to be uncertain and it is therefore impractical to calculate the straight lining of this lease in accordance with GRAP 13.

1.7 Inventories

Inventories consist of materials, components, fuel on hand and water stock.

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average cost formula.
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Summary of Accounting Policies

1.7 Inventories (continued)

When inventories are utilised or consumed, the carrying amounts of those inventories are recognised as an expense in the period. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. Reversals of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of non-financial assets

Property, plant and equipment and other non-current and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Statement of Financial Performance for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of the asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately indentifiable cash flows.

In assessing the value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in surplus or deficit in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may be decreased. If such indication exists, the company estimates the assets recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus/ (deficit).

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

The majority of the company's employees are members of various defined contribution plans. A defined contribution plan is a retirement plan under which the company pays fixed contributions into separate trustee administered funds.

The company’s contributions to the defined contribution plans are charged to the Statement of Financial Performance in the financial year to which they relate.

The company has no further payment obligations once the contributions have been paid.

Other post retirement obligations

The company provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees. This obligation is not funded by any underpinned assets.

Summary of Accounting Policies

1.9 Employee benefits (continued)

The entitlement to post-retirement health care benefits, gratuities and housing subsidies is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations using the projected unit credit method of these obligations on an annual basis. The obligation is measured at the present value of the estimated future cash flows using interest rates of government securities that have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses and past service costs are charged to the Statement of Financial Performance as the costs occur.

1.10 Provisions and contingencies

Provisions are recognised when:

- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Contingent assets and contingent liabilities are not recognised.

1.11 Bulk service contributions

Bulk service contributions are received by the company from developers for the potential expansion and/or augmentation of infrastructure relating to the provision of water and sanitation services to the development. When received the amounts are credited to the Statement of Financial Performance.

1.12 Government Grants

Government grants received are recognised as revenue, except to the extent that a liability is recognised with regards to conditions that give rise to a present obligation on the initial recognition of the asset. In cases that a liability is recognised, the carrying amount of the liability is reduced and the amount is recognised as revenue to the extent that the company satisfies the stipulated present obligations.

1.13 Revenue

Revenue comprises the invoiced value of sales in respect of operations in the provision of water and wastewater services and excludes investment and other income and value-added tax (VAT). Revenue from the distribution of water is recognised when consumed and the provision of sanitation services is recognised as and when the service has been provided. Average consumption is invoiced when meter readings have not been performed.

Deemed consumption areas are billed based on between 5kl and 20kl of water per stand per month, regardless of actual consumption.

Revenue is measured at the fair value of the consideration received or receivable excluding rebates and represents the amounts receivable for goods and services provided in the normal course of business.

1.14 Interest Revenue

Interest revenue is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get ready for its intended use are capitalised as part of the costs of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

Summary of Accounting Policies

1.16 Presentation currency and rounding

The annual financial statements are presented in South African Rand rounded to the nearest thousand.

1.17 Budget information

The company has adopted National Treasury's recommended template for the disclosure of budget information for the current financial year. The company's budget is prepared on an accrual basis that is comparable with the financial statements. The budget is prepared for the period from July 2014 to June 2015 which is in alignment to the presentation of the financial statements reporting period.

Figures in Rand thousand 2015 2014

Notes to the Financial Statements

2. Statements and interpretations not yet effective

At the date of authorisation of these Annual Financial Statements, the following Standards and Interpretations were in issue but not yet effective:

- GRAP 20 - Related Party Disclosure
- GRAP 32 - Service Concession Arrangements: Grantor
- GRAP 108 - Statutory Receivables
- GRAP 109 - Accounting by Principals and Agents

The above standards are similar to existing standards applied by the company and are unlikely to impact the financial position or performance of the entity, but may impact the extent of disclosures provided.

3. Property, plant and equipment

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	10 367	-	10 367	10 367	-	10 367
Buildings	316 599	(233 017)	83 582	351 601	(224 238)	127 363
Plant and machinery	1 519 012	(522 248)	996 764	1 518 345	(481 588)	1 036 757
Furniture and fixtures	19 694	(10 413)	9 281	15 711	(8 908)	6 803
Motor vehicles	14 176	(5 029)	9 147	14 776	(4 025)	10 751
Office equipment	18 402	(10 724)	7 678	20 056	(11 640)	8 416
Computer equipment	80 081	(47 110)	32 971	57 742	(36 875)	20 867
Capital work in progress	2 203 300	-	2 203 300	1 862 071	-	1 862 071
Communication equipment	21 820	(10 974)	10 846	15 216	(11 523)	3 693
Laboratory equipment	40 884	(23 865)	17 019	36 230	(20 644)	15 586
Minor plant	86 348	(50 072)	36 276	59 419	(45 119)	14 300
Inventory - Capital	64 469	-	64 469	-	-	-
Wastewater network	2 166 527	(187 113)	1 979 414	1 773 149	(166 303)	1 606 846
Water network	3 799 743	(488 266)	3 311 477	3 377 515	(415 716)	2 961 799
Total	**10 361 422**	**(1 588 831)**	**8 772 591**	**9 112 198**	**(1 426 579)**	**7 685 619**

Notes to the Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Impairment loss	Total
Land	10 367	-	-	-	-	-	-	10 367
Buildings	127 363	1 765	-	(36 767)	-	(8 779)	-	83 582
Plant and machinery	1 036 757	667	-	-	-	(40 311)	(349)	996 764
Furniture and fixtures	6 803	890	(7)	3 186	-	(1 591)	-	9 281
Motor vehicles	10 751	1 198	(411)	-	-	(2 391)	-	9 147
Office equipment	8 416	4 623	(1 809)	6	-	(3 558)	-	7 678
Computer equipment	20 867	5 778	(50)	17 498	-	(11 122)	-	32 971
Capital work in progress	1 862 071	726 415	-	(385 186)	-	-	-	2 203 300
Communication equipment	3 693	8 877	(26)	13	-	(1 711)	-	10 846
Laboratory Equipment	15 586	4 811	-	-	-	(3 378)	-	17 019
Minor plant	14 300	18 978	-	8 032	-	(5 034)	-	36 276
Inventory - capital	-	64 469	-	-	-	-	-	64 469
Wastewater network	1 606 846	20 423	-	282 876	90 079	(20 810)	-	1 979 414
Water network	2 961 799	256 225	-	108 626	57 377	(72 550)	-	3 311 477
	7 685 619	**1 115 119**	**(2 303)**	**(1 716)**	**147 456**	**(171 235)**	**(349)**	**8 772 591**

Notes to the Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Land and buildings

Land and buildings to the value of R 93,949 (2014: R 137,730) purchased from the City of Johannesburg Metropolitan Municipality in terms of the sale of business agreement, have not as yet been transferred into the name of Johannesburg Water SOC Limited. A register containing the information required as contained in the Sale of Business Agreement, Annexure G, is available for inspection at the registered office of the company.

Capital work in progress

Capital work in progress comprises of the following significant classes:-

Water network	R	1 017 632
Plant and Machinery	R	992 179
Wastewater network	R	158 926
Other	R	34 563

Fully depreciated assets held at R1 (not in Rand thousand)

Included in PPE are assets which currently have a book value of R1 (one Rand) and less. These assets were acquired from the City of Johannesburg as part of the sale of the business agreement. The above mentioned assets are correctly valued and accounted for in the annual financial statements in accordance with GRAP 17.

Notes to the Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Developer funded network	Depreciation	Impairment loss	Total
Land	10 367	-	-	-	-	-	-	10 367
Buildings	98 233	37 971	(325)	230	-	(8 746)	-	127 363
Plant and machinery	1 035 880	3 311	-	41 624	-	(43 950)	(108)	1 036 757
Furniture and fixtures	6 350	1 738	(124)	134	-	(1 295)	-	6 803
Motor vehicles	6 777	5 760	-	-	-	(1 786)	-	10 751
Office equipment	11 002	684	(13)	23	-	(3 280)	-	8 416
Computer equipment	20 170	6 849	(279)	2 570	-	(8 443)	-	20 867
Capital work in progress	1 299 498	685 408	(540)	(122 295)	-	-	-	1 862 071
Communication equipment	3 004	1 634	(12)	-	-	(933)	-	3 693
Laboratory Equipment	16 917	2 477	(27)	-	-	(3 781)	-	15 586
Minor plant	16 397	1 666	(11)	135	-	(3 887)	-	14 300
Wastewater network	1 511 894	14 817	-	15 740	82 646	(18 251)	-	1 606 846
Water network	2 720 790	190 560	(2 359)	46 870	64 043	(58 105)	-	2 961 799
	6 757 279	**952 875**	**(3 690)**	**(14 969)**	**146 689**	**(152 457)**	**(108)**	**7 685 619**

Notes to the Financial Statements

Figures in Rand thousand

3. Property, plant and equipment (continued)

Capital work in progress

Capital work in progress comprises of the following significant classes:-

Plant and Machinery	R 943,963
Water network	R 751,181
Wastewater network	R 116,525
Other	R 50,402

Fully depreciated assets held at R1 (not in Rand thousand)

Included in PPE are assets which currently have a book value of R1 (one Rand) and less. These assets were acquired from the City of Johannesburg as part of the sale of the business agreement. The above mentioned assets are correctly valued and accounted for in the annual financial statements in accordance with GRAP 17.

Figures in Rand thousand | 2015 | 2014

3. Property, plant and equipment (continued)

The following leased assets are included in Property, plant and equipment listed above.

	2015			2014		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Office equipment	4 648	(1 931)	2 717	4 932	(3 267)	1 665
Motor vehicles	13 926	(4 818)	9 108	14 525	(3 825)	10 700
Total	**18 574**	**(6 749)**	**11 825**	**19 457**	**(7 092)**	**12 365**

4. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Servitudes	1 727	-	1 727	1 727	-	1 727
Computer software	97 076	(54 184)	42 892	75 571	(26 889)	48 682
Total	**98 803**	**(54 184)**	**44 619**	**77 298**	**(26 889)**	**50 409**

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	1 727	-	-	-	1 727
Computer software	48 682	6 537	1 716	(14 043)	42 892
	50 409	**6 537**	**1 716**	**(14 043)**	**44 619**

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Transfers	Amortisation	Total
Servitudes	1 727	-	-	-	1 727
Computer software	28 118	15 790	14 969	(10 195)	48 682
	29 845	**15 790**	**14 969**	**(10 195)**	**50 409**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

5. Inventories

Material, components and fuel	54 896	51 664
Water	11 682	10 749
Subtotal	66 578	62 413
Provision for inventory write downs	(1 640)	(1 617)
	64 938	**60 796**

Inventory consists of spares and consumables which will be utilised by the company in its daily business operations, as well as stock of water. The stock of water is computed based on volumes at year end in the water network, water towers and reservoirs. Water stock expensed is included as part of cost of sales.

6. Trade receivables and (payables) with group companies

Fellow subsidiaries

Johannesburg City Parks NPC	(458)	(351)
Johannesburg Roads Agency SOC Ltd	(3 148)	(21 594)
Johannesburg Social Housing Company SOC Ltd	-	(115)
Johannesburg Metropolitan Bus Services SOC Ltd t/a Metrobus	(3)	-
City of Johannesburg Property Company SOC Ltd	(26)	-
Pikitup Johannesburg SOC Ltd	-	(708)
	(3 635)	**(22 768)**

Terms and Conditions

The above loans are short term (30 - 60 days) , unsecured and interest free.

Credit quality of trade receivables with group companies

The credit quality of trade receivables with group companies that are neither past due nor impaired are considered fair by the company taking into account the historical information available and due to the fact that there has been no default in the past.

The trade receivables and payables with group companies are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. The carrying value of trade receivables and payables with group companies approximates fair value.

Trade receivables with group companies past due but not impaired

There are trade receivables with group companies which are past due and not impaired.

30 days past due	-	2

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

7. Loans to/(from) shareholder

City of Johannesburg Metropolitan Municipality - Other loans	(728 352)	(316 915)
City of Johannesburg Metropolitan Municipality - Conduit mirror loans	(3 244 231)	(2 857 052)
City of Johannesburg Metropolitan Municipality - Other non-exchange loans	52 428	44 471
City of Johannesburg Metropolitan Municipality - Post retirement benefit	69 835	72 004
City of Johannesburg Metropolitan Municipality - Capex drawdown	1 531	53 648
City of Johannesburg Metropolitan Municipality - Sweeping account	330 301	42 007
City of Johannesburg Metropolitan Municipality - Shareholder loans	(194 961)	(259 956)
	(3 713 449)	**(3 221 793)**

Other loans and the capex drawdown are short term (30 - 60 days), unsecured and interest free.

Current assets	454 095	212 130
Non-current liabilities	(2 926 633)	(2 648 152)
Current liabilities (including short term portion of long term loans)	(1 240 911)	(785 771)
	(3 713 449)	**(3 221 793)**

The terms of loans to shareholder have not been renegotiated in the current or prior period.

The loans to/(from) shareholder are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. The carrying value of loans to/(from) shareholder approximates fair value.

Loans to shareholder past due but not impaired

At 30 June 2015, R 71 (2014: R 5) were past due but not impaired.

The ageing of the amounts past due but not impaired is as follows:

60 days past due	71	-
90 days past due	-	5

7.1. City of Johannesburg Metropolitan Municipality - Conduit mirror loans

Loans at the beginning of the year	(2 857 052)	(2 542 724)
New loans	(813 947)	(676 279)
Repayments	426 384	361 904
Interest accrued	384	47
Balance at end of year	**(3 244 231)**	**(2 857 052)**

Conduit loans are repayable in equal quarterly instalments over a period of 10 years from loan acquisition.
These unsecured loans bear interest at a fixed rate of 9.31% to 10.9% (2014: 9.31% to 10.9%) .

FDA 1 (Caylon) is repayable in equal quarterly instalments over a period of 10 years, commencing 30 September 2008. These unsecured loans bear interest at a variable rate linked to Jibar less 35 basis points resulting in a rate of 5.76% for the current financial year (2014: 5.38%)

FDA 2 is repayable in equal half yearly instalments over a period of 12 years, commencing 15 November 2014. These unsecured loans bear interest at a variable rate linked to Jibar plus 70 basis points resulting in a rate of 7.4% and 7.7% for the current financial year (2014: 7.4% and 7.47%)

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

7. Loans to/(from) shareholder (continued)

7.2. City of Johannesburg Metropolitan Municipality - Shareholder loans

Shareholder loans at beginning of the year	(259 956)	(324 950)
Repayments	64 995	64 995
Balance at the end of the year	**(194 961)**	**(259 955)**

The unsecured loans bear interest at a nominal annual rate of 14.5% to 15% (2014: 14.5% to 15%) compounded monthly and are repayable in equal quarterly instalments over a period of 10 years. The quarterly capital repayments commenced in 2009.

7.3. City of Johannesburg Metropolitan Municipality - Sweeping account

Bank Sweeping Account	330 301	42 007

The bank sweeping account is an unsecured interest bearing loan to the shareholder with no fixed repayment terms. The loan earns interest at a variable rate which was 6.21% (2014: 5.73%) at the reporting date.

8. Finance lease obligation: Shareholder

Minimum lease payments due		
- within one year	3 231	3 372
- in second to fifth year	8 824	9 517
- later than five years	-	1 280
	12 055	14 169
less: Future finance charges	(2 255)	(2 976)
Present value of minimum lease payments	**9 800**	**11 193**

Non-current liabilities	7 441	8 829
Current liabilities	2 359	2 364
	9 800	**11 193**

Interest on finance leases are calculated at 10% per annum, and repayments on the lease arrangements are made monthly. The lease terms range from 3 years to 7 years. The carrying value of the finance leased assets is included in property, plant and equipment, under motor vehicles. Refer note 3 for further information.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

9. Finance lease obligation: Other

Minimum lease payments due		
- within one year	1 455	1 592
- in second to fifth year	1 598	287
	3 053	1 879
less: Future finance charges	(258)	(96)
Present value of minimum lease payments	**2 795**	**1 783**

Non-current liabilities	1 505	279
Current liabilities	1 290	1 504
	2 795	**1 783**

Interest on finance leases are calculated at variable rates of interest, ranging between 7.35% and 8.5% per annum, and repayments on the lease arrangements are made quarterly. The lease terms are over a period of 3 years. The carrying value of the finance leased assets is included in property, plant and equipment, under office equipment. Refer note 3 for further information.

10. Other receivables

Sundry Debtor	16 499	16 415
Allowance for impairment	(2 843)	(2 956)
Total other receivables	**13 656**	**13 459**

Other receivables consist predominantly of the billing and recovery of sundry services which include laboratory fees and prepaid expenditure.

Credit quality of other receivables

Other receivables comprise of the recovery of sundry services. Management evaluates credit risk relating to these customers on an on-going basis. The credit quality of other receivables that are neither past due nor impaired are considered fair by the company taking into account the historical information available.

Other receivables past due but not impaired

At 30 June 2015 R 4 (2014: R 9) was past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

30 days past due	2	9
60 days past due	2	-

Other receivables impaired

As of 30 June 2015, other receivables of R 16,499 (2014: R 16,415) were considered for impairment testing. The allowance for impairment losses for the period was R2,843 (2014: R2,956).

The classification and respective ageing categories considered by management during the testing for impairment are as follows:

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

10. Other receivables (continued)

	2015	2014
Current	13 653	13 450
1 - 30 days	2	9
31 - 60 days	2	-
61 - 90 days	-	1
91 - 120 days	9	21
121 - 365 days	14	-
> 365 days	2 819	2 934
Total other receivables	**16 499**	**16 415**

Reconciliation of allowance for impairment of other receivables

	2015	2014
Opening balance	(2 956)	(3 158)
Allowance for impairment losses	(42)	(27)
Reversed during the year	45	229
Write off	110	-
	(2 843)	**(2 956)**

The creation and release of the allowance for impairment of other receivables have been included in operating expenses in the Statement of Financial Performance (note 26). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

11. Consumer debtors: Exchange transactions

	2015	2014
Trade receivables	5 839 684	7 738 197
Allowance for impairment	(3 874 196)	(5 748 754)
	1 965 488	**1 989 443**

An impairment is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. Accordingly, an impairment loss is recognised based on the ageing as well as the profile of debtors. The terms of trade and other receivables have not been renegotiated during the current or prior period.

Extensive investigative work performed prior to 2004 in order to inform the direction of the company turnaround strategy identified that the deemed consumption areas were largely responsible not only for the high outstanding debtors, but also the higher than benchmark unaccounted for water level. The level of water losses for the year under review is 26.8% (2014: 29.0%). The metered areas are considered to be within accepted norms, whilst the problem area has been identified as being the deemed consumption environment.

Credit quality of consumer debtors

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an on-going basis and characteristics like collection levels are considered during evaluation for impairment. The credit quality of trade receivables that are neither past due nor impaired are considered fair by the company taking into account the historical information available.

Summary of consumer debtors by classification

Domestic consumers	2015	2014
Current	237 401	253 134
30 days	502 897	308 185
31 - 60 days	181 155	188 935
61 - 90 days	146 492	181 620
91 - 120 days	143 943	146 640
121 - 365 days	1 162 677	1 148 044
> 365 days	675 031	2 549 758
	3 049 596	4 776 316
Less: Allowance for impairment	(2 089 904)	(3 937 628)
	959 692	**838 688**

Domestic consumers - Past due and impaired	2015	2014
Current (0 - 30 days)	-	(25 313)
30 days	(45 114)	(30 818)
31 - 60 days	(34 912)	(18 893)
61 - 90 days	(28 227)	(18 162)
91 - 120 days	(143 943)	(146 640)
121 - 365 days	(1 162 677)	(1 148 044)
> 365 days	(675 031)	(2 549 758)
	(2 089 904)	**(3 937 628)**

Domestic consumers - Current, past due and not impaired	2015	2014
Current	237 401	227 821
30 days	457 783	277 367
31 - 60 days	146 243	170 042
61 - 90 days	118 265	163 458
	959 692	**838 688**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

11. Consumer debtors: Exchange transactions (continued)

Commercial consumers		
Current	256 749	687 331
30 days	420 395	182 275
31 - 60 days	92 417	122 320
61 - 90 days	109 216	87 570
91 - 120 days	75 949	64 264
121 - 365 days	532 641	482 075
> 365 days	1 086 036	1 105 066
	2 573 403	2 730 901
Less: Allowance for impairment	(1 669 617)	(1 635 180)
	903 786	**1 095 721**

Commercial consumers - Past due and impaired		
91 - 120 days	(72 764)	(62 357)
121 - 365 days	(510 817)	(467 757)
> 365 days	(1 086 036)	(1 105 066)
	(1 669 617)	**(1 635 180)**

Commercial consumers - Current, past due and not impaired		
Current	256 749	687 331
30 days	420 395	182 275
31 - 60 days	92 417	122 320
61 - 90 days	109 216	87 570
91 - 120 days	3 185	1 907
121-365 days	21 824	14 318
	903 786	**1 095 721**

National and provincial government		
Current	18 948	18 050
30 days	56 012	16 400
31 - 60 days	21 190	10 594
61 - 90 days	5 860	9 990
91 - 120 days	5 910	9 118
121 - 365 days	1 680	55 661
> 365 days	107 085	111 167
	216 685	230 980
Less: Allowance for impairment	(114 675)	(175 946)
	102 010	**55 034**

National and provincial government - Past due and impaired		
91 - 120 days	(5 910)	(9 118)
121 - 365 days	(1 680)	(55 661)
> 365 days	(107 085)	(111 167)
	(114 675)	**(175 946)**

National and provincial government - Current, past due and not impaired		
Current	18 948	18 050
30 days	56 012	16 400
31 - 60 days	21 190	10 594
61 - 90 days	5 860	9 990
	102 010	**55 034**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

11. Consumer debtors: Exchange transactions (continued)

Total consumer debtors		
Current	513 098	958 515
30 days	979 304	506 860
31 - 60 days	294 762	321 849
61 - 90 days	261 568	279 180
91 - 120 days	225 802	220 022
121 - 365 days	1 696 998	1 685 780
> 365 days	1 868 152	3 765 991
	5 839 684	7 738 197
Less: Allowance for impairment	(3 874 196)	(5 748 754)
	1 965 488	**1 989 443**

Total consumer debtors - Past due and impaired		
Current (0 - 30 days)	-	(25 313)
30 days	(45 114)	(30 818)
31 - 60 days	(34 912)	(18 893)
61 - 90 days	(28 227)	(18 162)
91 - 120 days	(222 617)	(218 115)
121 - 365 days	(1 675 174)	(1 671 462)
> 365 days	(1 868 152)	(3 765 991)
	(3 874 196)	**(5 748 754)**

Total consumer debtors - Current, past due but not impaired		
Current	513 098	933 202
30 days	934 190	476 042
31 - 60 days	259 850	302 956
61 - 90 days	233 341	261 018
91 - 120 days	3 185	1 907
121 - 365 days	21 824	14 318
	1 965 488	**1 989 443**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(5 748 754)	(5 322 618)
Contributions to allowance	(1 630 531)	(1 128 194)
Debt impairment written off against allowance	3 505 089	702 058
	(3 874 196)	**(5 748 754)**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

12. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2015

	Loans and receivable	Other	Total
Consumer debtors	1 965 488	-	1 965 488
Other receivables	3 675	-	3 675
Prepayments	-	9 981	9 981
Total Other Receivables	**3 675**	**9 981**	**13 656**
Loans to shareholder	**454 095**	**-**	**454 095**
Cash	**30**	**-**	**30**
	2 423 288	**9 981**	**2 433 269**

2014

	Loans and receivable	Other	Total
Consumer debtors	1 989 443	-	1 989 443
Other receivables	8 668	-	8 668
Prepayments	-	4 791	4 791
Total Other Receivables	**8 668**	**4 791**	**13 459**
Loans to shareholder	**212 130**	**-**	**212 130**
Cash	**31**	**-**	**31**
	2 210 272	**4 791**	**2 215 063**

13. Cash and cash equivalents

Cash and cash equivalents consist of:

	2015	2014
Cash on hand	30	31

The company has a sweeping arrangement with the City of Johannesburg Metropolitan Municipality whereby all cash is swept on a daily basis to the City of Johannesburg Metropolitan Municipality's bank account. Petty cash is reflected as being on hand. The cash owed to the company by the City of Johannesburg Metropolitan Municipality is reflected as an amount due from the shareholder. The amount due as at 30 June 2015 is R330 million (2014: R42 million).

Notes to the Financial Statements

Figures in Rand thousand			2015	2014

13. Cash and cash equivalents (continued)

Bank	Account Type	Account number		
Absa	Expenditure	4054394786	-	-
Absa	Revenue	4054394809	-	-
Absa	Salaries	4054394817	-	-
Standard bank	Expenditure	000196789	-	-
Standard bank	Revenue	000196819	-	-
Standard bank	Salaries	000196843	-	-
Standard bank	Bank charges	000196398	-	-
			-	**-**

14. Contribution from shareholder

Authorised		
1000 Ordinary shares of R1 each	1	1
Issued		
200 Ordinary shares of R1 each	1	1

Notes to the Financial Statements

Figures in Rand thousand		2015	2014

15. Retirement benefit obligations

The actuarial valuations were performed by ARCH Actuarial Consulting CC, who is independent post retirement plan administrators. It was concluded that the plan was in a sound financial position, taking into account the loan receivable (note 7) from the City of Johannesburg Metropolitan Municipality, to cover the liability.

		2015	2014
Post-retirement liability			
Provision:Post-Retirement Medical Obligation	15.1	36 032	31 020
Provision:Post-Retirement Housing Subsidy obligation	15.2	61	51
Provision:Post-Retirement Gratuity Obligation	15.3	50 896	59 103
Balance at end of year		**86 989**	**90 174**

15.1 Post retirement medical aid plan

The company has made provision for post retirement medical benefits covering 17 employees (2014: 17 employees), and 43 continuation members (2014: 43 continuation members). There are 2 medical schemes. Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement medical aid plan

	2015	2014
Opening balance	31 020	32 673
Benefits paid	(1 459)	(1 346)
Current service costs	328	479
Interest costs	2 707	2 531
Actuarial gain	3 436	(3 317)
Balance at end of year	**36 032**	**31 020**

Key assumptions used

Assumptions used on last valuation on 30 June 2015.

	2015	2014
Discount rates used	8.48 %	8.94 %
Expected increase in salaries	7.14 %	8.05 %

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement medical aid plan liability.

Change in assumptions

A sensitivity analysis with respect to a 1% change in the discount rate will have the following impact:

	-1%	**0%**	**1%**
Liability	40,074	36,032	32,612
Percentage change	-11.22%	0%	9.49%

Post Retirement Mortality

	-1 year	**No change**
1 year adjustment to mortality rate	37,407	36,032
Percentage change	-3.82%	0%

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

15. Retirement benefit obligations (continued)

Other assumptions:

Age of Spouse	-	husbands five years older than wives
Mortality of in-service members	-	In accordance with the SA 85-90 mortality tables
Mortality of pensioners	-	In accordance with the PA(90) ultimate mortality tables.

15.2 Post retirement housing subsidy plan

The company has made provision for post retirement housing subsidies covering 4 employees (2014: 4 employees). and 1 continuation member (2014: 1 continuation member). Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement housing subsidy plan

	2015	2014
Opening balance	51	54
Current service costs	1	2
Interest costs	4	4
Benefits Paid	(4)	(3)
Actuarial gain	9	(6)
Balance at end of year	**61**	**51**

Key assumptions used

Assumptions used on last valuation on 30 June 2015.

	2015	2014
Discount rates used	8.48 %	8.94 %
Expected increase in salaries	7.14 %	8.05 %

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement housing subsidy plan liability.

Change in assumptions

A sensitivity analysis with respect to a 1% change in the discount rate will have the following impact:

	-1%	**0%**	**1%**
Liability	65	61	58
Percentage change	-5.88%	0%	5.30%

Post Retirement Mortality

	-1 year	**No change**
1 year adjustment to mortality rate	62	61
Percentage change	-0.82%	0%

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

15. Retirement benefit obligations (continued)

15.3 Post retirement gratuity plan

The company has made provision for post retirement gratuity benefits covering 293 employees (2014: 343 employees). Actuarial valuations are independently prepared annually using the projected unit credit method and a set of actuarial assumptions.

Reconciliation of post retirement gratuity plan

	2015	2014
Opening balance	59 103	61 613
Benefits paid	(6 346)	(6 825)
Interest Cost	5 121	4 659
Actuarial loss / (gain)	(6 982)	(344)
Balance at end of year	**50 896**	**59 103**

Key assumptions used

Assumptions used on last valuation on 30 June 2015.

	2015	2014
Discount rates used	8.48 %	8.94 %
Expected increase in salaries	7.14 %	8.05 %

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement gratuity plan liability.

Change in assumptions

A sensitivity analysis with respect to a 1% change in the discount rate will have the following impact:

	-1%	**0%**	**1%**
Liability	54,269	50,896	47,846
Percentage change	-6.63%	0%	5.99%

Post Retirement Mortality

	-1 year	**No change**
1 year adjustment to mortality rate	50,896	50,896
Percentage change	0%	0%

15.4 Net expense recognised in the statement of financial performance

	2015	2014
Post retirement medical aid plan	(5 012)	1 653
Post retirement housing subsidy plan	(10)	3
Post retirement gratuity plan	8 207	2 510
Total included in employee related costs	**3 185**	**4 166**

15.5 Defined contribution plan

The company's liability is limited to its contributions to the plan.

	2015	2014
The total company contribution to such schemes	72 662	52 783

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

16. Deferred income

Unspent conditional grants comprise:

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Government grants	2 260	-

Government grants movement during the year		
Balance at the beginning of the year	-	499
Received in current year	226 177	307 925
Utilised during the year	(223 917)	(308 424)
Balance at the end of the year	**2 260**	**-**

The unspent conditional grants have been contracted for. The projects were classified as work in progress at the reporting date resulting in partial fulfilment of the conditions attached to the funding.

17. Trade and other payables from exchange transactions

Trade payables	949 426	965 500
Payments received in advanced	410 885	490 027
Accrued leave pay	41 219	41 892
Accrued bonus (13th Cheque)	21 747	20 012
Operating lease payables	17 201	19 115
Sundry payables	8 412	12 976
VAT	100 901	176 049
Consumer deposits	291 839	201 099
	1 841 630	**1 926 670**

The above are short term (30-60 days) , unsecured and interest free.

18. Provisions

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	18 101	21 493	(12 528)	(5 573)	21 493
	18 101	**21 493**	**(12 528)**	**(5 573)**	**21 493**

Reconciliation of provisions - 2014

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Provision for bonuses	15 080	18 101	(13 941)	(1 139)	18 101
	15 080	**18 101**	**(13 941)**	**(1 139)**	**18 101**

Figures in Rand thousand | 2015 | 2014

19. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2015

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	1 319 853	-	1 319 853
South African Revenue Services	-	110 685	110 685
Customer Prepayments	-	411 092	411 092
Trade and other payables from exchange transactions	**1 319 853**	**521 777**	**1 841 630**
Trade payables with group companies	**3 635**	**-**	**3 635**
Loans from Shareholder	**4 167 544**	**-**	**4 167 544**
Finance lease obligation: Shareholder	9 800	-	9 800
Finance lease obligation: Other	2 795	-	2 795
Provisions	**-**	**21 493**	**21 493**
	5 503 627	**543 270**	**6 046 897**

2014

	Financial liabilities	Other	Total
Trade and other payables from exchange transactions	1 251 200	-	1 251 200
South African Revenue Services	-	185 210	185 210
Customer Prepayments	-	490 260	490 260
Trade and other payables from exchange transactions	**1 251 200**	**675 470**	**1 926 670**
Trade payables with group companies	**22 768**	**-**	**22 768**
Loans from Shareholder	**3 433 923**	**-**	**3 433 923**
Finance lease obligation: Shareholder	11 193	-	11 193
Finance lease obligation: Other	1 783	-	1 783
Provisions	**-**	**18 101**	**18 101**
	4 720 867	**693 571**	**5 414 438**

20. Revenue from exchange transactions

	2015	2014
Sale of water	4 545 589	4 115 694
Rendering of sanitation services	2 741 202	2 346 470
	7 286 791	**6 462 164**

21. Other income

	2015	2014
Other income	5 010	8 406
Laboratory income	852	997
Developer funded asset income	147 456	146 689
Bulk service contributions received	88 167	66 482
	241 485	**222 574**

22. Revenue from non-exchange transactions

	2015	2014
Government grants released	223 917	308 424

Notes to the Financial Statements

Figures in Rand thousand		2015	2014

23. Water Losses: Physical and Commercial

Water losses are included in cost of sales. The level of physical and commercial losses for the year under review is 22.0% [R776,2 million], (2014: 29.0% [R942,0 million). The level of physical losses for the year under review is 16.0% [R559,4 million], (2014: 20.9% [R678,9 million]). The level of commercial losses for the year under review is 6.2% [R216,7 million], (2014: 8.1% [R263,1 million]).

It is acknowledged and accepted that a certain level of water losses cannot be avoided from a technical perspective and is considered acceptable from an economic perspective. This means the cost of interventions to reduce water losses from a technical perspective should be less than the savings to be realised. The industry norm for water losses is 18%. Taking consideration hereof would result in a reduction of the level of water losses for the year under review to 4.2% [R146,8 million], (2014: 11.0% [R357,3 million]). The industry norm of 18% applied is 2% more stringent than the benchmark of 20% as published by the South African Water Research Commission.

Please refer to note 11 for additional information.

24. Expenses by nature

Operating surplus for the year is stated after accounting for the following:

		2015	2014
Operating lease charges - Contractual amounts			
Premises		28 499	28 573
Motor vehicles		85 651	85 984
Equipment		1 041	879
		115 191	**115 436**
Operating expenses			
Allowance for debt impairment	26	1 423 127	1 075 110
Employee costs	28	769 770	739 581
Electricity and chemicals	27	133 543	164 088
Billing and meter reading charges		198 426	185 452
Depreciation, amortisation and impairments		185 624	162 757
Consumables		121 130	110 738
Security		27 476	27 505
Loss on disposal of property, plant and equipment		1 781	3 672
Insurance		10 443	8 757
Repairs and maintenance		12 640	9 227
Legal expenses		696	1 612

25. Auditors remuneration

	2015	2014
Fees	4 707	3 993

26. Allowance for receivable impairment (Bad debts)

	2015	2014
Allowance for impairment	1 423 127	1 075 110

27. Electricity and Chemicals

	2015	2014
Electricity	106 767	134 800
Chemicals	26 776	29 288
	133 543	**164 088**

Notes to the Financial Statements

Figures in Rand thousand		2015	2014

28. Employee costs

	2015	2014
Basic salaries	535 709	523 636
Other allowances	87 032	92 416
Pension costs	79 842	60 086
Medical aid - company contributions	49 416	45 158
Leave pay	10 106	11 608
Post retirement benefit plan cost (Defined contribution plan)	4 626	4 009
Housing benefits and allowances	3 039	2 668
	769 770	**739 581**

	2015	2014
Average number of employees employed during the year		
- Permanent	2 536	2 501

29. Interest revenue

	2015	2014
Interest earned - sweeping account	10 141	2 683
Interest on impaired accounts	73 678	62 197
	83 819	**64 880**

30. Finance costs

	2015	2014
Interest paid - Shareholder loans and Finance leases	309 123	282 669

31. Taxation

As the company is a water service provider it has been exempt from normal company taxation in terms of Section 10(1)(t) of the Income Tax Act, Act 58 of 1962, published in the Government Gazette.

32. Cash generated from operations

	Note	2015	2014
Surplus		671 996	561 724
Adjustments for:			
Depreciation, amortisation and impairments	3&4	185 624	162 757
Allowance for impairment	26	1 423 127	1 075 110
Movements in retirement benefit assets and liabilities	15	(3 185)	(4 166)
Movements in provisions	18	3 392	3 021
Loss on disposal of property, plant and equipment	24	1 781	3 672
Developer funded asset income	3	(147 456)	(146 689)
Changes in working capital:			
Inventories	5	(4 142)	(13 240)
Other receivables	10	(197)	(1 022)
Consumer debtors	11&26	(1 399 172)	(1 309 892)
Trade and other payables from exchange transactions	17	(85 040)	298 814
Unspent conditional grants	16	2 260	(499)
Trade payables in group companies	6	(19 130)	11 209
		629 858	**640 799**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
Property, plant and equipment	405 964	873 676

The commitments disclosed above relate only to construction contracts with suppliers. Other procurement contracts with suppliers are subject to the demand or requirements of Johannesburg Water and as such, there is no fixed future obligation or commitment in respect of these contracts.

This capital expenditure is to be financed from internally generated funds and from shareholder loans and grants as follows:

This expenditure will be financed from:		
Shareholder loans	223 024	579 198
Grant funding	182 940	291 387
Internal cash	-	3 091
	405 964	**873 676**

Operating leases - as lessee

Minimum lease payments due

• within one year	30 606	30 236
• in second to fifth year inclusive	63 379	77 356
• later than five years	-	16 629
	93 985	**124 221**

Operating lease payments represent rentals payable by the company for certain of its office properties and equipment. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. Lease agreements over office properties are subject to escalation clauses

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

34. Related parties

Related parties disclosed in this note are restricted to the City of Johannesburg Metropolitan Municipality and its subsidiaries only.

Relationships	
Parent	City of Johannesburg Metropolitan Municipality
Other members of the group	City of Johannesburg Property Company SOC Ltd City Power Johannesburg SOC Ltd Johannesburg City Parks NPC Johannesburg Development Agency SOC Ltd Johannesburg Metropolitan Bus Services SOC Ltd Johannesburg Roads Agency SOC Ltd Johannesburg Social Housing Company SOC Ltd Metropolitan Trading Company SOC Ltd Pikitup Johannesburg SOC Ltd The Johannesburg Civic Theatre SOC Ltd The Johannesburg Fresh Produce Market SOC Ltd The Johannesburg Zoo NPC
Members of key management	Directors' emoluments and other Key Management Personnel Remuneration - Note 35
Other related parties	There were no related party declarations made during the year by any supplier, tenderer or employee in terms of Supply Chain Management Regulation 45.

	2015	2014
Related party balances		
Loan amounts owing to related parties		
City of Johannesburg Metropolitan Municipality -Net current liabilities	274 257	104 785
City of Johannesburg Metropolitan Municipality - Long term Loans	2 926 633	2 648 151
Finance lease obligation: Shareholder	9 800	11 193
Short term portion of long term loans	512 559	468 856
	3 723 249	**3 232 985**

Related party balances

	2015	2014
Amounts owing by related parties		
City of Johannesburg Metropolitan Municipality - General	643 470	480 478
Johannesburg City Parks NPC	-	2
Johannesburg Roads Agency SOC Ltd - General	2	5
	643 472	**480 485**

	2015	2014
Amounts owing to related parties (excluding long term liabilities)		
City of Johannesburg Metropolitan Municipality	1 440 085	1 065 312
Johannesburg Social Housing Company SOC Ltd	-	115
Pikitup Johannesburg SOC Ltd	-	708
City of Johannesburg Property Company SOC Ltd	26	-
Johannesburg City Parks NPC	458	353
Johannesburg Roads Agency SOC Ltd	3 150	21 599
Johannesburg Metropolitan Bus Services SOC Ltd t/a Metrobus	3	-
	1 443 722	**1 088 087**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

34. Related parties (continued)

Related party transactions

Sales to related parties		
City of Johannesburg Metropolitan Municipality	1 235	1 479
Pikitup Johannesburg SOC Ltd	-	157
Johannesburg City Parks NPC	1	9
Johannesburg Roads Agency SOC Ltd	21	24
	1 257	**1 669**

Purchases from related parties		
City of Johannesburg Metropolitan Municipality	(261 675)	(263 757)
Johannesburg Social Housing Company SOC Ltd	-	(1 325)
Pikitup Johannesburg SOC Ltd	311	(708)
City Power Johannesburg SOC Ltd	(61)	(151)
City of Johannesburg Property Company SOC Ltd	(23)	-
Johannesburg Metrobus	(19)	(11)
Johannesburg City Parks NPC	(442)	(310)
Johannesburg Roads Agency SOC Ltd	(8 470)	(19 995)
	(270 379)	**(286 257)**

Interest on shareholder loans and sweeping account		
Interest earned on sweeping account	10 141	2 682
Interest paid on shareholder loans	(317 470)	(292 922)
	(307 329)	**(290 240)**

All transactions with group companies are conducted at arms length.

Figures in Rand thousand 2015 2014

Notes to the Financial Statements

35. Directors' emoluments and other Key Management Personnel Remuneration

The emoluments paid to the directors, senior management and members of the audit committee is reflected hereunder.

Executive directors

2015	Basic salary	Bonuses and performance related payments	Travel and subsistance allowances	Contributions to pension funds and medical aid	Total
LT Dhlamini - Managing Director	1 526	-	366	213	2 105
CB Shongwe - Financial Director	1 348	-	84	197	1 629
	2 874	**-**	**450**	**410**	**3 734**

2014	Basic salary	Bonuses and performance related payments	Travel allowances	Contributions to pension funds and medical aid	Total
LT Dhlamini - Managing Director	1 425	90	358	201	2 074
CB Shongwe - Financial Director	324	-	14	47	385
M. Padiaychee - Retired Financial Director	-	79	-	-	79
	1 749	**169**	**372**	**248**	**2 538**

Non executive directors

Services rendered as director of company	2015	2014
N Govender	143	181
ZD Hlatshwayo	40	-
SN Khondlo	21	-
JB Manche	99	47
JJH Mateya	296	210
MP Matji	66	-
C Mbili	-	38
K Mdutshane	350	105
G Moloi	90	119
C Motau	156	101
N Motlabane	74	-
N Msezane	90	147
KPM Simelane	259	88
NC Skeepers	128	211
C Tilly	-	100
	1 812	**1 347**

Services rendered as independent members of the audit committee	2015	2014
R Buys	112	95
M Mdutshane	-	51
V Mokwena	113	69
Z Samsam	113	38
	338	**253**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

35. Directors' emoluments and other Key Management Personnel Remuneration (continued)

Senior Management

2015	Basic salary	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
GJ Luden	1 062	-	-	283	1 345
JM Methula (Retired 19/09/2014)	327	-	36	20	383
N J Mukwevho	1 389	-	184	199	1 772
D Tshabalala	920	-	-	60	980
BQ Zimu	1 309	-	-	173	1 482
	5 007	**-**	**220**	**735**	**5 962**

2014	Basic salary	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
E Chikonyora	853	42	-	36	931
GJ Luden	999	24	-	244	1 267
JM Methula	707	43	162	78	990
NJ Mukwevho	1 308	78	184	185	1 755
D Tshabalala	864	-	7	59	930
BQ Zimu	1 267	67	-	162	1 496
	5 998	**254**	**353**	**764**	**7 369**

36. Comparatives restated

The comparative figures have been restated as a result of prior year adjustments as per note 37.

37. Prior year adjustments (errors)

37.1 Revenue from exchange transactions

The City of Johannesburg Metropolitan Municipality has recalculated the accrual value in relation to the 2013 and 2014 financial years. These transactions results in an adjustment to revenue for the 2013 and 2014 financial years as disclosed below. This has been accounted for as a prior period adjustment accordingly.

	2014	2013
Impact on Statement of Financial Position		
Increase in Consumer debtors: Exchange transactions	26 444	52 204
Impact on Statement of Financial Performance		
Increase in Revenue from exchange transactions	26 444	52 204
Impact on Statement of Changes in Net Assets		
Increase in net surplus for the year	26 444	52 204

37.2 Cumulative Impact on Statement of Changes in Net Assets

The cumulative impact of the Statement of Changes in Net Assets as a result of the prior year adjustments listed above is as follows:

	2014	2013
Impact on Statement of Changes in Net Assets		
Increase in net surplus for the year	26 444	52 204

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

38. Risk management

Financial risk management

The company's overall risk management program, in conjunction with the shareholder, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. Risk management is carried out by a central treasury department at the shareholder under policies approved by the mayoral committee. The board of directors sanction a risk management policy which considers financial risk management within the organisation. The company has no exposure to foreign exchange risk.

Liquidity risk

The company's risk to liquidity is a result of the funds necessary to cover future commitments. The company manages liquidity risk through an on-going review of future commitments and credit facilities.

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	1 499 699	777 099	1 823 833	1 330 614
Finance lease obligation: Shareholder	2 359	2 252	5 189	-
Finance lease obligation: Other	1 290	1 086	419	-
Trade payables with group companies	3 606	-	-	-
Trade and other payables from exchange transactions	1 319 853	-	-	-

At 30 June 2014	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Loans from shareholder	1 175 085	703 502	1 694 204	1 152 619
Finance lease obligation: Shareholder	2 364	2 238	5 377	1 214
Finance lease obligation: Other	1 504	279	-	-
Trade payables with group companies	22 768	-	-	-
Trade and other payables from exchange transactions	1 251 200	-	-	-

Interest rate risk

As the company has no significant interest-bearing assets or liabilities subject to interest rate fluctuations, the company's income and operating cash flows are substantially independent of changes in market interest rates.

The company's only interest-bearing assets or liabilities subject to interest rate fluctuations is a portion of the shareholder's loan linked to the Jibar interest rate and the bank sweeping account with the shareholder. Other than these items, the company's income and operating cash flows are substantially independent of changes in market interest rates. The table below illustrates the likely cash flow risk to the company in the event the interest rate fluctuates. An increase / (decrease) in the interest rate at the reporting date would have increased / (decreased) the surplus by the amounts shown below.

Sensitivity analysis for interest rate risk

Financial instrument	**Current interest rate**	2015	2014
Bank sweeping (+1%)	6.21%	3 303	420
Bank sweeping (-1%)		(3 303)	(420)
Shareholder loan (Jibar linked) (+1%)	5.76%	1 316	1 679
Shareholder loan (Jibar linked) (- 1%)		(1 316)	(1 679)

Figures in Rand thousand 2015 2014

Notes to the Financial Statements

38. Risk management (continued)

Credit risk

Credit risks arise mainly from trade receivables with group companies, loans to shareholder, trade and other receivables and cash and cash equivalents. The company's cash resources are swept on a daily basis to the shareholder who manages the cash resources in a central treasury department.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an on-going basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The maximum exposure to credit risk is limited to the values disclosed in note 12.

39. Unauthorised, fruitless and wasteful expenditure

There was no unauthorised, fruitless and wasteful expenditure during the current and comparative years.

40. Deviations from formal procurement processes

Product Category	Via Negotiations at Bid Committee	Via Price Quotations	Total Deviations
Emergencies	-	10 505	10 505
Sole Suppliers	81 379	1 748	83 127
Impracticality	120 853	50 697	171 550
	202 232	**62 950**	**265 182**

The table above indicates instances where it was impractical to invite competitive bids for specific requirements. The company's supply chain management policy and the Local Government Municipal Finance Management Act, 2003, as per Regulation 36(1) allows the Accounting Officer to dispense with the official procurement processes established, to procure any required goods or services through any convenient process which may include direct negotiations or price quotations in the following instances:

- Emergencies – where immediate action is necessary to avoid a dangerous or risky situation or misery or disaster
- Sole suppliers – where such goods or services are produced or available from a single provider only
- Any other exceptional cases where it is impractical or impossible to follow the official procurement processes

It is further noted that the deviations referred to above have been ratified by the Accounting Officer on a monthly basis and the appropriate reasons recorded, where officials or bid committees acted in terms of delegated powers which are purely of a technical nature. All these deviations have also in terms of the regulations been reported to the board of directors as required. Total deviations of R265,2 million (2013/14: R189,4 million) for the period under review indicates an increase of 40% compared to the previous period.

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

41. Irregular expenditure

Reconciliation of irregular expenditure

	2015	2014
Opening balance	12 238	-
Irregular expenditure current year	13 378	12 238
Condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-
Total	**25 616**	**12 238**

This expenditure was incurred as a result of transactions that impacted some awards in the supply chain management processes in the previous financial year 2013/14, but payment was only made in the current financial year. The transactions are as a result of accepting B-BBEE certificates that were not in accordance with the requirements of the Preferential Procurement Regulations which provides that no points be awarded for B-BBEE status if a bidder did not submit a valid and original or certified B-BBEE certificate, as well as an original tax clearance certificate.

It is also noted that transactions or conditions which triggered the irregular expenditure resulted in the entity suffering no loss but value for money was derived from the use of the goods or services rendered.

Analysis of expenditure awaiting condonation per age classification

	2015	2014
Current year	13 378	12 238
Prior years	12 238	-

Disciplinary/corrective action is being taken against the responsible officials. No financial loss was incurred.

Details of irregular expenditure – current year

Incident	Disciplinary steps taken/criminal proceedings	
Irregular expenditure incurred in the previous year but payments effected in the current year	Disciplinary/corrective action was taken against the responsible officials.	13 378
Total		**13 378**

Details of irregular expenditure not recoverable (not condoned)

Incident	
The prior year amount comprised of transactions in respect of contractors who provided BBBEE certificates that were not certified and tax clearance certificates that were not original as required by the Preferential Procurement Regulations. Certified copies of the BBBEE certificates of these contractors were subsequently obtained and the original tax clearance certificates were also received. All other awards which potentially may also have been in a similar position, were reviewed and updated to ensure full compliance with the supply chain policy and regulations. The company did not suffer any financial loss and no person in the company benefitted unduly. Liability for this expenditure can therefore not be attributed to any person and recovery is not possible.	12 238
The current year amount comprised of transactions in respect of contractors who provided BBBEE certificates that were not certified and tax clearance certificates that were not original as required by the Preferential Procurement Regulations. Certified copies of the BBBEE certificates of these contractors were subsequently obtained and the original tax clearance certificates were also received. The company did not suffer any financial loss and no person in the company benefitted unduly.	13 378
	25 616

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

42. Actual capital expenditure versus budgeted capital expenditure

Refer below for the comparison of actual capital expenditure versus budgeted capital expenditure per source of funding.

	2015	2014
Capital budget for the year	1 091 585	1 020 283
Actual spend for the year	(1 058 794)	(1 010 394)
	32 791	**9 889**
Actual spend as a percentage of budget	97.0 %	99.0 %

Capital expenditure - Actual vs Budget

Sources of funds	Original Budget	Budget Adjustment	Final Budget	Actual	Variance f/(u)
Loans	719 174	136 000	855 174	813 947	(41 227)
Own Funding	150 000	(136 000)	14 000	22 436	8 436
Grants and subsidies	222 411	-	222 411	222 411	-
	1 091 585	**-**	**1 091 585**	**1 058 794**	**(32 791)**

Notes to the Financial Statements

Figures in Rand thousand	2015	2014

43. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	28	129
Current year fee	4 707	3 993
Amount paid - current year	(4 540)	(3 965)
Amount paid - previous years	(28)	(129)
	167	**28**

PAYE and UIF

Opening balance	9 161	8 299
Current year contributions	121 635	116 688
Amount paid - current year	(121 012)	(115 826)
	9 784	**9 161**

Pension and Medical Aid Contributions

Current year contributions	195 218	162 059
Amount paid - current year	(195 218)	(162 059)
	-	**-**

44. Change in accounting estimates

Useful lives of Property, plant and equipment

The residual values, depreciation methods and useful lives of the asset categories are reviewed at each financial year-end and adjusted if necessary. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The useful lives of the following categories of property, plant and equipment have been reviewed and adjusted by management in the current financial year as follows:

Water meters useful lives have changed from between 4 to 10 years, to between 4 to 13 years. The impact of the change in estimate is a decrease in the current year depreciation by R 2,159.

The plant and machinery range remains 10 to 40 years as described in the policy; however the sub classes within plant and machinery have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R 833.

The motor vehicles range remains 5 to 12 years as described in the policy; however the sub classes within motor vehicles have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R 13.

Communications equipment useful lives have changed from between 2 to 7 years, to between 2 to 9 years. The impact of the change in estimate is a decrease in the current year depreciation by R 87.

The computer equipment range remains 4 to 15 years as described in the policy; however the sub classes within computer equipment have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R86.

Laboratory equipment useful lives have changed from between 2 to 7 years, to between 2 to 10 years. The impact of the change in estimate is a decrease in the current year depreciation by R 527.

Minor plant useful lives have changed from between 5 to 10 years, to between 5 to 13 years. The impact of the change in estimate is a decrease in the current year depreciation by R 133.

44. Change in accounting estimates (continued)

Allowance for debt impairment of consumer debtors

Management utilises judgement in evaluating credit risk related to customers. Judgement is based on various factors including, but not limited to, historical information available.

Evidence of impairment may include indications that the debtors or group of debtors is experiencing significant financial difficulty , default of delinquency in interest or principal payments.

Previously management adopted an estimate of more than 90 days overdue as well as observable payment levels for current through to 89 days. Management has revised its estimates to consider more than 90 days overdue as well as observable payment levels for overdue through to 89 days as best practice.

The impact of the change in estimate is an increased requirement in the allowance of consumer debtors amounting to R27,236.